

GAO

Report to the Subcommittee on
Government Efficiency, Financial
Management and Intergovernmental
Relations, Committee on Government
Reform, House of Representatives

March 2002

SINGLE AUDIT

Survey of CFO Act Agencies

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

20020318 097



G A O

Accountability * Integrity * Reliability

Contents

| | |
|---|---|
| Letter | 1 |
| Results in Brief | 2 |
| Objectives, Scope, and Methodology | 3 |
| Background | 4 |
| Single Audit Processes in Place but Use of Results Varies Significantly among Agencies | 6 |

Appendixes

| | |
|--|----|
| Appendix I: Agencies Subject to the Chief Financial Officers Act | 12 |
| Appendix II: Briefing on Results of Survey on CFO Act Agency Use of Single Audits | 13 |
| Appendix III: OMB Circular A-133 Compliance Supplement Requirements | 36 |

Abbreviations

| | |
|---------|---------------------------------|
| CFO | chief financial officer |
| CFO Act | Chief Financial Officers Act |
| FAC | Federal Audit Clearinghouse |
| IG | inspector general |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| QCR | quality control reviews |



United States General Accounting Office
Washington, D.C. 20548

March 15, 2002

The Honorable Stephen Horn
Chairman
Subcommittee on Government
Efficiency, Financial Management
and Intergovernmental Relations
Committee on Government Reform
House of Representatives

The auditing of more than \$300 billion a year in federal awards administered by state and local governments and nonprofit organizations is a critical element in the federal government's ability to ensure that these federal funds are properly used. The Single Audit Act, as amended, is intended to promote sound financial management, including effective internal controls over these federal awards. Before passage of the act, the federal government relied on audits of individual grants to help gain assurance that state and local governments and nonprofit organizations were properly spending federal awards. The concept of the single audit was created to replace these grant audits with one audit of an entity as a whole. Rather than a detailed review of individual grants or programs, often times by multiple audit organizations where there was more than one federal funding source, the single audit is an organizationwide audit that focuses on accounting and administrative controls.

Single audits, as implemented by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provide a tool that federal agencies can use to identify meaningful information on entities' financial status, their management of federal funds, and areas that need further audit or investigative work. Each year, about 30,000 single audits are conducted, and several thousand of them identify weaknesses in award recipients' financial management and internal control systems relating to these federally funded programs.

On February 19, 2002, we briefed you on the results of the initial phase of the work done in response to your request for information on how federal agencies use single audit results. As agreed with your office, this report summarizes the matters discussed during that briefing. To assess how agencies are using the results of single audits, we conducted a survey of the 24 agencies subject to the Chief Financial Officers (CFO) Act. (See appendix I for a list of the CFO Act agencies.) The objectives of the survey were to capture information on federal agency

-
- single audit processes and responsibilities,
 - use of single audits, and
 - use of the Federal Audit Clearinghouse (FAC) database.

The briefing materials we used are included as appendix II to this letter. Work is underway on the remaining segment of your request dealing with what several agencies are doing to assure that recipients of federal awards have corrected problems identified by single audits.

Results in Brief

Our survey results indicated that the CFO Act agencies have generally developed processes and assigned responsibilities to meet their requirements under the Single Audit Act, as amended. Agencies reported that they are using single audits to monitor compliance with administrative and program requirements and the adequacy of recipients' internal controls and for other purposes. Further, although federal agencies identified many uses of single audits, they reported that they are not routinely using the FAC database.

According to our survey of officials in chief financial officer, inspector general (IG), and program offices at the 24 CFO Act agencies, agency program offices are primarily responsible for ensuring the application of the provisions set forth in OMB Circular A-133. These provisions include providing recipients of federal awards with information on the award, advising recipients of the requirement to obtain a single audit, and addressing issues that require corrective action and audit follow-up. CFO and IG offices are involved in providing information to auditors performing single audits and in addressing issues that require corrective action. In addition, Offices of Inspector General (OIG) perform quality control reviews of selected single audits to ensure that the audit work performed complies with auditing standards.

A review of the survey results indicated that one or more offices at 22 of the agencies used single audits as a tool to monitor compliance with administrative and program requirements addressed in the Circular A-133 Compliance Supplement and to monitor the adequacy of recipients' compliance with internal controls. Agencies indicated that they also used single audit reports

- as a source of leads for additional audits,
- as a preaward check to determine how the recipient managed previous awards,

-
- to select recipients for program site visits,
 - as support for closeout of the award,
 - to hold agency program offices accountable for administrative and program compliance,
 - to support the agency's financial statements, and
 - as a source of program information for the agency's performance plan or annual accountability report.

Further, 11 or fewer of the CFO Act agencies reported that they routinely use the FAC database to identify recipients that incurred questioned costs or programs that have significant findings, to identify recipients with recurring findings, or to study subrecipient findings. Additionally, in discussions with agency personnel, we learned that individuals at 4 agencies were unaware of the FAC database and how it could be used. Those agencies that do not use the database rely on the FAC to send them the single audit reports and agency personnel then review the reports for information relating to their programs.

Objectives, Scope, and Methodology

To assess how agencies are using the results of single audits, we conducted a survey of the 24 agencies subject to the CFO Act. We pretested our survey with one federal agency, solicited comments from OMB, and modified the survey based on the comments we received. The survey included two sections. The first section captured background information on agency federal awards programs, the single audit process from an agencywide perspective, and the offices within the agency that are responsible for fulfilling the task of implementing the various single audit responsibilities defined under OMB Circular A-133. The second part of the survey captured information on how agency CFO, IG, and program offices use the results of single audits in each agency's largest grant program. We distributed the surveys to the agencies for completion. We then performed follow-up interviews with representatives from CFO, IG, and program offices to obtain, discuss, and clarify their survey responses.

Our survey results reflect the information provided by and the opinions of the agency officials who participated in our survey. We did not independently verify the responses to our questions. We received responses from all of the CFO Act agencies. One of the 24 agencies returned but did not complete the survey because it does not have grant-making authority, and, therefore, has no experience with single audits. As a result, our survey results are based on responses from 23 agencies. We conducted our work from July 2001 through December 2001, in accordance

with generally accepted government auditing standards. We discussed a draft of this report with representatives from OMB and have incorporated their comments and views where appropriate.

Background

According to OMB, federal awards for fiscal year 2001 totaled about \$325 billion of the \$1.8 trillion federal budget. The Departments of Agriculture, Education, Health and Human Services, Housing and Urban Development, and Transportation were responsible for managing about 86 percent of the federal awards in fiscal year 2001. The Single Audit Act, as amended, established the concept of the single audit to replace multiple grant audits with one audit of the recipient as a whole. As such, a single audit is an organizationwide audit that focuses on the recipient's internal controls and compliance with laws and regulations governing federal awards and should be viewed as a tool that raises relevant or pertinent questions rather than as a document that answers all questions. Federal awards include grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, and direct appropriations and federal cost reimbursement contracts.

The objectives of the Single Audit Act, as amended, are to

- promote sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities;
- establish uniform requirements for audits of federal awards administered by nonfederal entities;
- promote the efficient and effective use of audit resources;
- reduce burdens on state and local governments, Indian tribes, and nonprofit organizations; and
- ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to the act.

Recipients of federal awards who expend \$300,000 or more in a year are required to comply with the Single Audit Act's requirements. In general, they must (1) maintain internal control over federal programs, (2) comply with laws, regulations, and the provisions of contracts or grant agreements, (3) prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards, (4) ensure that the required audits are properly performed and submitted when due, and (5) follow up and take corrective actions on audit findings.

OMB Circular A-133 establishes policies for federal agency use in implementing the Single Audit Act, as amended, and provides an administrative foundation for consistent and uniform audit requirements for nonfederal entities that administer federal awards. It details federal responsibilities with respect to informing grantees of their responsibilities under the act. A significant part of OMB Circular A-133 is the Compliance Supplement. This document serves as a source of information to aid auditors in understanding federal program objectives, procedures, and compliance requirements relevant to the audit, and it identifies audit objectives and suggested procedures for auditors' use in determining compliance with the requirements. For example, it includes guidance on audit procedures applicable to 14 areas including allowable activities, allowable costs, cash management, eligibility, and reporting. (Appendix III lists and briefly describes the 14 areas.)

Organizations that must comply with the Single Audit Act, as amended, are required to submit a reporting package to the FAC. The FAC serves as the central collection point, repository, and distribution center for single audit reports. Its primary functions are to

- receive the SF-SAC Form—a data collection form that contains summary information on the auditor, auditee and its federal programs, and audit results—and the audit report from the auditee,
- archive copies of the SF-SAC Form and audit report,
- forward a copy of the audit report to each federal awarding agency that has provided direct funding to the auditee when the report identifies a finding relating to that agency's awards, and
- maintain an electronic database that is accessible through the Internet.

In our June 1994 report, *Single Audit: Refinements Can Improve Usefulness* (GAO/AIMD-94-133), nearly two-thirds of the program managers we interviewed said that a database of single audit information would be a significant help in comparing information about entities operating their programs. Eighty percent of the managers said they would like to use the database to identify all entities operating their programs that had serious internal control or noncompliance problems disclosed in single audit reports.

The Single Audit Act Amendments of 1996 led to the establishment of an automated database of single audit information—the FAC database. OMB Circular A-133 requires all entities that must submit single audit reports to the FAC to prepare and submit a data collection form (SF-SAC Form) with

the audit report. The FAC uses this form as the source of the information for its automated, Internet-accessible¹ database of information contained in single audit reports. The database contains about 4 years of information on over 30,000 annual single audit reports. The various data query options available provide potential users, including program managers, auditors, and other interested parties, with significant amounts of readily available information on grant recipient financial management and internal control systems and on compliance with federal laws and regulations.

Single Audit Processes in Place but Use of Results Varies Significantly among Agencies

Our survey results indicated that the CFO Act agencies have generally developed processes and assigned responsibilities to meet their requirements under the Single Audit Act, as amended. The CFO, IG, and program offices perform these activities either individually or in coordination with each other. Federal agencies indicated that they use single audit results for many purposes. The most common reported use was as a tool to monitor auditee compliance with administrative and program requirements and to monitor the adequacy of internal controls. Although agencies have identified many uses for the single audit results, our survey results show that they are generally not using the FAC automated database to obtain summary information on the audit results or the entities that are receiving funds under their programs. Rather, they reported developing their own systems or methods to obtain information from the reports.

Single Audit Processes and Awarding Agency Responsibilities

According to our survey results, agency program offices are primarily responsible for ensuring the application of the provisions set forth in OMB Circular A-133. For example, in completing the survey, program office officials indicated that they (1) ensure that award recipients are given information that describes the federal award, (2) advise recipients of other applicable award requirements, (3) advise recipients of the requirement to obtain a single audit when they expend \$300,000 or more in federal awards in a year, (4) ensure that single audits are completed and the reports are received in a timely manner, and (5) follow up on issues identified in the reports that require corrective action. Specifically,

¹The Web address for the FAC database is <http://harvester.census.gov/sac>.

-
- 20 agency program offices responded that they ensure recipients are given the information necessary to describe the federal award and advise recipients of other applicable award information,
 - 19 responded that they advise recipients of the requirements to obtain a single audit when they expend \$300,000 or more in federal awards in a year,
 - 19 responded that they follow up on issues that are identified in the reports that require corrective action,
 - 17 responded that they provide information to auditors about the federal program, and
 - 10 responded that they ensure that single audits are completed and the reports are received in a timely manner.

Additionally, at some agencies more than one office responded that they are responsible for the application of the provisions of OMB Circular A-133.

The FAC distributes single audit reports to each federal awarding agency that has provided direct funding and for which the report identifies an audit finding related to an award managed by that agency. Based on our survey, receipt of single audit reports from the FAC and distribution of the reports to the applicable agency office is predominately the responsibility of the OIG. Our results show that 18 OIGs responded that they receive the single audit reports directly from the FAC and that they distribute them to applicable agency offices.

Audits provide important information on recipient performance and are a critical control that agencies can use to help ensure that entities that receive federal funds use those funds in accordance with program rules and regulations. Agency OIGs play a key role in this area by performing quality control reviews (QCR) to ensure that the audit work performed complies with auditing standards. Our survey results show that 10 of the CFO Act agency OIGs performed 109 QCRs during fiscal year 2001, although this total may be overstated since OIGs occasionally perform joint QCRs and our survey did not capture information on the number of times this occurred. Although the number of QCRs performed is small compared to the approximately 30,000 single audits performed annually, several OIGs conducting QCRs have identified problems with the audit work performed. For example, 7 OIGs noted problems with the internal control and/or compliance testing performed by the auditors, and 3 OIGs reported problems relating to auditor compliance with generally accepted government auditing standards.

Audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Corrective action taken by the recipient on audit findings and recommendations is essential to improving the effectiveness and efficiency of government operations. In addition, federal agencies need to ensure that recipients take timely and effective corrective action. OMB Circular A-133 notes that audit follow-up is the responsibility of the federal awarding agency. The Circular requires agencies to issue a management decision on audit findings within 6 months after receipt of the recipient's audit report and to ensure that the recipient takes appropriate and timely corrective action.

Analysis of our survey results indicates that both the IG and program offices have a role in the audit follow-up process. For example, 15 IG and 9 program offices responded that they are responsible for reviewing reports to verify that the report contains agency program-specific information. When single audit reports do not have enough information, both IG and program offices indicated that they follow up with either the recipient or the auditor. Thirteen IG and 14 program offices stated that they follow up with the recipient, and 13 IG and 10 program offices stated they follow up with the auditor.

Program offices, on the other hand, are responsible for evaluating the corrective action plans filed by recipients to determine whether they address the audit findings. Sixteen program offices responded that they are responsible for evaluating the corrective action plans to determine whether the issues are valid and what corrective action is necessary. Furthermore, the program offices at 10 agencies stated that they rely on subsequent audits to determine whether corrective actions have been taken.

Agency Uses of Single Audits

At 22 of the agencies, officials in at least one of the CFO, IG, and/or program offices responded that they use single audits as a tool to monitor compliance with administrative and program requirements addressed in the OMB Circular A-133 Compliance Supplement and to monitor the adequacy of internal controls. Six agencies reported that the CFO, IG, and program offices all perform this function. Six agencies reported that some combination of CFO, IG, and program offices perform this function. Ten agencies reported that one office performs the function, and that office varies across the 10 agencies.

The next most frequent uses reported were for identifying leads for additional audits (18 agencies) and as a preaward check for determining

how recipients managed previous awards (14 agencies). Further, they reported that the single audit reports are used in preaward checks to identify findings that may affect the program area of operations and identify questioned or unallowable costs incurred by the recipient. The agencies reported that these checks may affect future awards.

Additionally, the survey results indicated that between 6 and 12 agencies use single audit results

- to identify leads for program office site visits (12 agencies),
- as support for closeout of the award (12 agencies),
- to hold agency program offices accountable for administrative and program compliance (12 agencies),
- to support the agency's financial statements (10 agencies), and
- as a source of program information for the agency's performance plan or annual accountability report (6 agencies).

As can be seen, agencies report using single audits for a number of purposes. However, between 1 and 8 agencies indicated that, for several reasons, they did not use the reports for some or all of these purposes. When asked why they did not use single audit reports, several agencies noted that their programs were too small to be covered in the scope of an audit performed under the Single Audit Act. For example, the Single Audit Act requires auditors to use combined expenditure and risk-based criteria to determine which programs to include in the scope of a single audit. Since the expenditure portion of the criteria identifies awards with large-dollar expenditures, agencies whose programs do not meet this criteria are less likely to have their programs audited during a single audit. Additionally, agencies said the single audit reports did not provide relevant information for specific purposes such as support for the agency financial statements or holding federal program offices accountable for administrative and program compliance. Other reasons provided for not using single audit reports include limited staff resources and competing priorities.

Federal Audit Clearinghouse Database Usage

Our survey results indicate that 11 agencies routinely use the FAC database and that usage is distributed among the CFO, IG, and program offices. For example, the 11 agencies indicated that they use the database to identify recipients that have incurred questioned costs, have made improper payments, or both. In addition, 8 agencies noted that they use the database to determine whether large-dollar or complex programs have significant

findings such as adverse opinions on recipient compliance with program laws and regulations. Survey respondents also indicated that they use the FAC database to perform other tasks, such as

- tracking the status of audit-finding resolution,
- determining whether the recipient has filed its single audit report,
- a source for audit leads,
- identifying trends between recipients, and
- verifying the accuracy of the Schedule of Expenditures of Federal Awards.

Those agencies that do not use the database reported that they rely on the FAC to send them the single audit reports and that they review the hard copy reports to obtain information on the agency's programs instead of the database.

In discussions with personnel at 4 agencies, we learned that they were unfamiliar with the FAC database and how it could be used. These officials did express interest in using the database and inquired about the availability of training.

We are sending copies of this report to the ranking minority member, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, House Committee on Government Reform; the chairman and ranking minority member, Senate Committee on Appropriations; the chairman and ranking minority member, House Committee on Appropriations; the chairman and ranking minority member, Senate Committee on Governmental Affairs; the chairman and ranking minority member, House Committee on Government Reform; the chairman and ranking minority member, Senate Budget Committee; and the chairman and ranking minority member, House Budget Committee. We are also sending copies of this report to the director of the Office of Management and Budget and the agency CFOs and IGs. Copies of this report will be made available to others upon request. This report will also be available on GAO's home page (<http://www.gao.gov>).

Please call me at (213) 830-1065 or Tom Broderick, Assistant Director, at (202) 512-8705 if you or your staff have any questions about the information in this report. Key contributors to this report were Cary Chappell, Mary

Ellen Chervenik, Valerie Freeman, Stuart Kaufman, and Gloria Hernandez-Saunders.

Sincerely yours,

A handwritten signature in cursive script that reads "Sally E. Thompson". The signature is written in black ink and is positioned below the "Sincerely yours," text.

Sally E. Thompson
Director, Financial Management and Assurance

Agencies Subject to the Chief Financial Officers Act

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs
Agency for International Development
Environmental Protection Agency
Federal Emergency Management Agency
General Services Administration
National Aeronautics and Space Administration
National Science Foundation
Nuclear Regulatory Commission
Office of Personnel Management
Small Business Administration
Social Security Administration

Briefing on Results of Survey on CFO Act Agency Use of Single Audits



Results of Survey on CFO Act Agency Use of Single Audits

Briefing for Committee Staff
Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations
Committee on Government Reform
House of Representatives
February 19, 2002

Briefing Section I—Overview

Recipients of Federal Awards

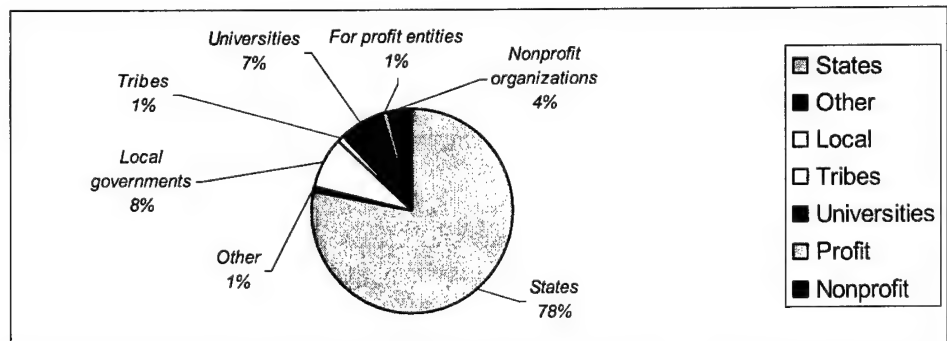
According to Office of Management and Budget (OMB) figures, federal awards for fiscal year 2001 totaled \$325 billion of the \$1.8 trillion budget. This assistance includes grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, and direct appropriations and federal cost reimbursement contracts.²

²The Single Audit Act Amendments of 1996 added federal cost reimbursement contracts and added the term federal awards to reflect the inclusion of nonprofit organizations, which often receive much of their funding through cost reimbursement contracts for research and development activities.



Recipients of Federal Awards (Fiscal Year 2001)

**\$325
Billion**



Appendix II
Briefing on Results of Survey on CFO Act
Agency Use of Single Audits

Briefing Section I—Overview

Fiscal Year 2001 Grants by Agency to State and Local Governments

According to OMB figures, the Department of Health and Human Services is responsible for managing 54 percent of the \$325 billion in federal awards provided during fiscal year 2001. The Departments of Transportation, Housing and Urban Development, Education, and Agriculture are responsible for managing an additional 32 percent of federal awards.



FY 2001 Grants by Agency to State and Local Governments

(in billions)

| | |
|---|---------|
| • Department of Health and Human Services | \$174.7 |
| • Department of Transportation | 34.3 |
| • Department of Housing and Urban Development | 26.2 |
| • Department of Education | 23.5 |
| • Department of Agriculture | 20.4 |
| • Department of Labor | 8.7 |
| • Department of Justice | 6.4 |
| • Environmental Protection Agency | 3.6 |
| • Department of the Interior | 2.2 |
| • Federal Emergency Management Agency | 2.1 |
| • Department of Commerce | 0.7 |
| • Department of the Treasury | 0.5 |
| • Department of Veterans Affairs | 0.4 |

Briefing Section I—Overview

Top Ten Programs for Fiscal Year 2001

According to OMB figures, the Department of Health and Human Services managed 5 of the top 10 federal awards programs in fiscal year 2001. These programs are

- Medicaid,
- Temporary Assistance for Needy Families,
- Head Start,
- Foster Care, and
- Child Support Enforcement.



Top Ten Programs

FY 2001
(in billions)

| | |
|---|-------|
| • Medicaid | \$116 |
| • Highway Planning and Construction | 28 |
| • Temporary Assistance for Needy Families | 19 |
| • Title I - Education | 8 |
| • National School Lunch Program | 6 |
| • Work Force Investment Act | 5 |
| • Head Start | 5 |
| • Special Education - States | 5 |
| • Foster Care | 4 |
| • Child Support Enforcement | 4 |
| Total | \$200 |

Briefing Section II—Single Audit Processes and Awarding Agency Responsibilities

Organizations Performing Selected A-133 Responsibilities

According to our survey results, agency program offices are primarily responsible for ensuring the application of the provisions set forth in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For example, 20 agency program offices responded that they ensure that recipients are given the information necessary to describe the federal award and advise recipients of other applicable award information. Nineteen responded that they advise recipients of the requirement to obtain a single audit when they expend \$300,000 or more in federal awards in a year, 19 responded that they follow up on issues that are identified in the reports that require corrective action, 17 responded that they provide information to auditors about the federal program, and 10 responded that they ensure that single audits are completed and that the reports are received in a timely manner. Additionally, at some agencies more than one office responded that they are responsible for the application of the provisions of OMB Circular A-133. For example, the chief financial officer (CFO) and inspector general (IG) offices are involved in providing information to auditors performing single audits and in addressing issues that require corrective action.

While the majority of agencies hold program offices responsible for such tasks, 3 agencies established a separate function within the CFO's office to ensure proper oversight of federal awards. While these agencies award relatively small amounts of federal money, they felt it was important to maintain proper oversight.

Agencies responded that the primary way they promote compliance with OMB Circular A-133 is by mandating it in regulations, agency policy directives, or guidance on grants administration, and by including it in the grant award document.



Organizations Performing Selected A-133 Responsibilities

| Responsibility | CFO | OIG | Program | Not performed |
|---|-----|-----|---------|---------------|
| Provide recipients the information necessary to describe the federal award. | 4 | 0 | 20 | 1 |
| Advise recipients of other applicable award requirements and provide information as requested. | 4 | 3 | 20 | 0 |
| Advise recipients of the requirement to obtain a single audit when they expend \$300,000 or more in federal awards in a year. | 4 | 0 | 19 | 2 |
| Address issues that are identified in single audit reports that require corrective action. | 6 | 12 | 19 | 0 |
| Provide information to auditors on agency programs as requested. | 7 | 11 | 17 | 0 |
| Ensure single audits are completed and reports are received in a timely manner. | 6 | 6 | 10 | 6 |

NOTE: Rows do not add across to total agencies because we received responses from multiple offices within an agency.

Briefing Section II—Single Audit Processes and Awarding Agency Responsibilities

Organizations Performing Selected A-133 Responsibilities

OMB Circular A-133 requires the Federal Audit Clearinghouse (FAC) to distribute single audit reports to the federal agencies. The FAC distributes reports to each federal agency that provides federal awards and for which the report identifies an audit finding related to an award managed by that agency. Based upon our survey, receipt of single audit reports from the FAC and distribution of the reports within the agency are predominately Office of Inspector General (OIG) responsibilities. Our results show that 18 OIGs receive the single audit reports directly from the FAC and distribute them to applicable agency offices.

Under OMB Circular A-133, federal award recipients are assigned either a cognizant agency for audit or an oversight agency for audit, depending on the amount of federal awards they expend.³ The agency that provides the predominant amount of direct funding to a recipient is responsible for carrying out the functions of the cognizant or oversight agency, unless OMB makes a specific cognizant agency for audit assignment. The cognizant agency for audit is required to conduct quality control reviews (QCR) of selected audits made by nonfederal auditors.

³Recipients that expend more than \$25 million a year in federal awards shall have a cognizant agency for audit.



Organizations Performing Selected A-133 Responsibilities

| Responsibility | CFO | OIG | Program | Not performed |
|--|-----|-----|---------|---------------|
| Receive single audit reports from the FAC. | 6 | 18 | 5 | 1 |
| Distribute single audit reports to the applicable agency office. | 4 | 18 | 6 | 1 |
| Obtain or conduct QCRs of selected audits made by nonfederal auditors, and provide the results, when appropriate, to other interested organizations. | - | 10 | - | 13 |

NOTE: Rows do not add across to total agencies because we received responses from multiple offices within an agency.

Briefing Section II—Single Audit Processes and Awarding Agency Responsibilities

Single Audit Follow-up Process

Analysis of our survey results indicates that both the IG and program offices are responsible for the audit follow-up process. For example, 15 IG and 9 program offices responded that they are responsible for reviewing reports to verify that the report contains agency program-specific information. When single audit reports do not have enough information, both IG and program offices follow up with either the recipients or the auditor. Thirteen IG and 14 program offices stated they follow up with the recipient, and 13 IG and 10 program offices stated that they follow up with the auditor.

Program offices, on the other hand, are responsible for evaluating the corrective action plans filed by recipients to determine whether they address the audit findings. As shown on the accompanying slide, 16 program offices responded that they are responsible for evaluating the corrective action plans to determine their validity. Furthermore, the program offices at 10 agencies stated that they rely on subsequent audits to determine if corrective actions have been taken.

To facilitate follow-up procedures, automated or manual audit tracking systems are necessary. The results of our interviews show that most agencies use a tracking system to track single audit findings.



Single Audit Follow-up Process

| Steps in the Single Audit Follow-up Process | CFO | OIG | Program office | Not performed |
|--|-----|-----|----------------|---------------|
| Which offices, if any, review reports to verify that the report contains information about a specific agency program? | 5 | 15 | 9 | 2 |
| Which offices, if any, seek additional information from the audited recipient when reports do not have enough information? | 5 | 13 | 14 | 2 |
| Which offices, if any, seek additional information from the auditor when reports do not have enough information? | 5 | 13 | 10 | 2 |
| Which offices, if any, evaluate the issues and the corrective action plan prepared by the recipient to determine whether the issues are valid and what corrective action is necessary? | 5 | 9 | 16 | 1 |
| Which offices, if any, reconcile with the list of audit reports sent to appropriate offices to assure that follow-up was completed? | 7 | 10 | 6 | 7 |
| Which offices, if any, rely on the auditor performing the subsequent audit to determine whether issues requiring corrective action have been corrected? | 5 | 9 | 10 | 4 |

NOTE: Rows do not add across to total agencies because we received responses from multiple offices within an agency.

Briefing Section III—How Agencies Use Single Audits

Agency Uses of Single Audits

Review of the surveys indicated that one or more offices at 22 agencies use single audits as a tool to monitor compliance with administrative and program requirements and to monitor the adequacy of recipients' compliance with internal controls. Five agencies reported that the CFO, IG, and program offices all perform these functions. Six agencies reported that some combination of CFO, IG, and program offices perform them and 11 agencies reported that one office performs this function.

Our results also indicate that many agency personnel read all single audit reports they receive to identify noncompliance with program requirements or inadequacy of internal controls.



Uses of Single Audits by Agency Offices

| | Agencies | CFO | OIG | Program |
|--|----------|-----|-----|---------|
| • as a tool to monitor compliance with administrative and program requirements addressed in the OMB Circular A-133 Compliance Supplement | 22 | 9 | 13 | 14 |
| • as a tool to monitor the adequacy of recipients' compliance with internal controls | 22 | 9 | 12 | 14 |

NOTE: Rows do not add across to total agencies because we received responses from multiple offices within an agency.

Briefing Section III—How Agencies Use Single Audits

Agency Uses of Single Audits

Single-audit-report leads for follow-on work can come from a review of the entity's financial statements or the auditor's findings. Further, while single audit report findings are supposed to be corrected by the entities, some findings may indicate problems that need further investigation to be fully understood and effectively resolved. Thus, information from single audit reports may indicate the possible need for follow-on audits or additional review and analysis by program officials or both.

Eighteen agencies responded that they use single audits as a source of leads for additional audits. Fourteen agencies said they use single audits as a preaward check to determine how the recipient managed previous awards. These agencies responded that single audit reports are used in preaward checks to identify

- findings that may affect the program area of operations,
- questioned or unallowable costs incurred by the recipient, and
- findings that may affect future awards.

Program officials at 12 agencies responded that single audits are used as a source of leads to select recipients for program site visits. Twelve agencies said they used single audit reports as support for award closeout.



Agency Uses of Single Audits

| | Agencies |
|--|----------|
| • as a source of leads for additional audits | 18 |
| • as a preaward check to determine how the recipient managed previous awards | 14 |
| • as a source of leads to select recipients for program site visits | 12 |
| • as support for closeout of the award | 12 |

Appendix II
Briefing on Results of Survey on CFO Act
Agency Use of Single Audits

Briefing Section III—How Agencies Use Single Audits

Agency Uses of Single Audits

Survey results indicate that 12 of the 24 CFO agencies use single audit results to hold agency program offices accountable for administrative and program compliance. Ten agencies responded that they use single audit reports to support the agency's financial statements. Six agencies responded that they used the results of single audits as a source of program information for the agency's performance plan or annual accountability report.



Agency Uses of Single Audits

| | Agencies |
|--|----------|
| • to hold agency program offices accountable for administrative and program compliance | 12 |
| • to support the agency's financial statements | 10 |
| • as a source of program information for the agency's performance plan or annual accountability report | 6 |

Briefing Section III—How Agencies Use Single Audits

Why Agencies Do Not Use Single Audit Reports

As indicated in the preceding slides, agencies use single audits for a number of purposes. However, between 1 and 8 agencies indicated that, for several reasons, they did not use the reports for these purposes. When asked why they did not use single audit reports for a particular purpose, between 4 and 8 agencies noted that their programs were too small to be covered by the Single Audit Act. For example, the Single Audit Act requires auditors to use combined expenditure and risk-based criteria to determine which programs to include in the scope of a single audit. Since the expenditure portion of the criteria identifies awards with large-dollar expenditures, agencies whose programs do not meet this criteria are less likely to have their programs audited during a single audit. Additionally, between 2 and 8 agencies said that the single audit reports did not provide relevant information for specific uses. Other reasons provided for not using single audit reports included limited staff resources (2 to 5 agencies), and competing priorities (1 to 3 agencies).



Why Agencies Do Not Use Single Audit Reports

| Uses | Agency programs are too small to be covered by the Single Audit Act | Audit reports do not provide relevant information | Limited staff resources | Competing priorities |
|--|---|---|-------------------------|----------------------|
| to support the agency's financial statements | 6 | 7 | 4 | 2 |
| as a source of program information for the agency's performance plan or annual accountability report | 7 | 5 | 3 | 3 |
| to hold federal program offices accountable for administrative and program compliance | 8 | 8 | 5 | 3 |
| as a preaward check to determine how the recipient managed previous awards | 6 | 2 | 2 | 1 |
| as a source for additional audits | 5 | 4 | 5 | 3 |
| as a source of leads to select recipients for program site visits | 5 | 4 | 3 | 2 |
| as support for closeout of the award | 4 | 3 | 2 | 2 |

Briefing Section IV—Use of Federal Audit Clearinghouse Database

Uses of Federal Audit Clearinghouse Database

Our survey results indicate that 11 agencies routinely use the FAC database and that usage is distributed among the CFO, IG, and program offices. For example, 11 agencies indicated that they use the database to identify recipients that have incurred questioned costs, have made improper payments, or both. In addition, 8 agencies noted that they use the database to determine whether large-dollar or complex programs have significant findings such as adverse opinions on recipient compliance with program laws and regulations. Survey respondents also indicated that they use the FAC database to perform other tasks, such as

- tracking the status of audit-finding resolution,
- determining whether the recipient has filed its single audit report,
- a source for audit leads,
- identifying trends between recipients, and
- verifying the accuracy of the Schedule of Expenditures of Federal Awards.

Those agencies that do not use the database rely on the FAC to send them the single audit reports and review the reports to obtain information on the agency's programs instead of using the database to obtain such information.

In discussions with agency personnel at four agencies, we learned that they were unfamiliar with the FAC and how it could be used. These officials did express interest in using the database and inquired about the availability of training.



Uses of Federal Audit Clearinghouse Database

| Uses | Agencies | CFO | OIG | Program |
|---|----------|-----|-----|---------|
| to determine whether multiple agency programs have similar audit issues called "finding categories" | 6 | 3 | 5 | 2 |
| to identify recipients that have incurred questioned costs, made improper payments, or both | 11 | 4 | 6 | 5 |
| to determine how many recipients have recurring findings | 6 | 3 | 2 | 3 |
| to determine whether large-dollar or complex programs have significant findings such as adverse opinions on recipient compliance with program laws and regulations | 8 | 3 | 3 | 4 |
| to study the findings of subrecipients (A subrecipient is a nonfederal entity that expends federal awards received from a pass-through entity to carry out federal programs.) | 6 | 2 | 4 | 3 |

NOTE: Rows do not add across to total agencies because we received responses from multiple offices within an agency.

OMB Circular A-133 Compliance Supplement Requirements

Presented below are the 14 types of compliance requirements that the auditor shall consider in every audit conducted under OMB Circular A-133.

| Compliance requirement | Description |
|---|--|
| Activities allowed or unallowed | Activities allowed or unallowed are unique to each federal program and are found in the laws and regulations and the provisions of the contract or grant agreements pertaining to the program. |
| Allowable costs/cost principles | OMB Circulars A-87, <i>Cost Principles for State, Local and Indian Tribal Governments</i> ; A-21, <i>Cost Principles for Educational Institutions</i> ; and A-122, <i>Cost Principles for Non-Profit Organizations</i> prescribe the cost accounting policies associated with the administration of federal awards managed by states, local governments, Indian tribal governments, educational institutions, and nonprofit organizations. |
| Cash management | Requires that recipients follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and payment by the recipient. |
| Davis-Bacon Act | Requires that all laborers and mechanics employed to work on construction projects over \$2,000 financed by federal assistance funds be paid prevailing wage rates. |
| Eligibility | The specific requirements for eligibility are unique to each federal program and are found in the laws and regulations and the provisions of the contract or grant agreements pertaining to the program. |
| Equipment and real property management | Requires real property acquired by nonfederal entities with federal award funds be used for the originally authorized purpose and may not be disposed of without prior consent of the awarding agency. |
| Matching, level of effort, earmarking | The specific requirements for matching, level of effort, and earmarking are unique to each federal program and are found in the laws and regulations and the provisions of the contract or grant agreements pertaining to the program. |
| Period of availability of federal funds | Where applicable, federal awards may specify a time period during which the nonfederal entity may use the federal funds. A nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and any preaward costs authorized by the awarding agency. |
| Procurement and suspension and debarment | Nonfederal entities are prohibited from contracting with or making subawards to parties that are suspended or debarred from contracting with the federal government. |
| Program income | Requires that program income be deducted from program outlays unless otherwise specified in agency regulations or the terms and conditions of the award. |
| Real property acquisition and relocation assistance | Requires that the provisions specified in the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, are adhered to when persons are displaced from their homes, businesses, or farms by federally assisted programs. |
| Reporting | Requires that each recipient report program outlays and program income on a cash or accrual basis, as prescribed by the awarding agency. |
| Subrecipient monitoring | Requires that pass-through entities monitor subrecipients. Monitoring activities may include reviewing reports submitted by subrecipients, performing site visits, reviewing the subrecipients single audit results, and evaluating audit findings and the corrective action plan. |
| Special tests and provisions | Special tests and provisions are unique to each federal program and are found in the laws and regulations and the provisions of the contract or grant agreements pertaining to the program. |

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO E-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily e-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
P.O. Box 37050
Washington, D.C. 20013

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

Visit GAO's Document Distribution Center

GAO Building
Room 1100, 700 4th Street, NW (corner of 4th and G Streets, NW)
Washington, D.C. 20013

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:
Web site: www.gao.gov/fraudnet/fraudnet.htm,
E-mail: fraudnet@gao.gov, or
1-800-424-5454 or (202) 512-7470 (automated answering system).

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G. Street NW, Room 7149,
Washington, D.C. 20548

**United States
General Accounting Office
Washington, D.C. 20548-0001**

| |
|---|
| Presorted Standard Postage & Fees Paid GAO Permit No. GI00 |
|---|

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

